

Dear Shareholders,

In my letter to shareholders last year, I commented that “the intellectual property business is dynamic and rapidly evolving.” In hindsight, that was clearly an understatement. Over the past year the media, politicians and industry have devoted unprecedented attention to and focused public debate on the appropriate role of intellectual property in our businesses and our society. Last year, The Commission on the Theft of American Intellectual Property, an independent and bipartisan initiative, concluded in their *The IP Commission Report*:

“The scale of international theft of American intellectual property (IP) is unprecedented – hundreds of billions of dollars per year, on the order of the size of U.S. exports to Asia. The effects of this theft are twofold. The first is the tremendous loss of revenue and reward for those who made the inventions ... as well as the jobs associated with those losses... The second and even more pernicious effect is that illegal theft of intellectual property is undermining both the means and the incentive for entrepreneurs to innovate...”

One of our country’s greatest strengths is our historic ability to innovate and to protect innovation from theft. It is ironic that many policymakers across the country are currently focused on initiatives that will materially weaken these protections and exacerbate the very problems identified by the Commission. It is even more ironic that some companies pushing these “policy reforms” have grown and prospered in part by using intellectual property created by others without compensation. These large well-connected technology companies and other special interest groups seem intent on spurring Washington to overturn more than two hundred years of patent law, corporate law and fundamental jurisprudence. Our country’s founding fathers understood the fundamental importance of protecting intellectual property when they included patent rights in the U.S. Constitution well before even the Bill of Rights was adopted. Washington would do well to reflect on the Commission’s conclusions and the original intent of our founding fathers before deciding that the system that has served us well for more than two hundred years should be tossed aside.

Nevertheless, I recognize that our system is not immune to abuse. There are scoundrels using unsavory tactics to extort unwarranted payments from small businesses under the threat of patent litigation. We need to find ways to address these threats to our small business community, but we cannot do so in a manner that makes it even more difficult for the creators of and investors in innovation to protect their valuable intellectual property rights.

So what does the current political environment mean for Pendrell? At a high level, we are confident that the importance of intellectual property on the global stage will only increase over time, despite some of the specious policy proposals and antics of commercial interests. The Commission pointed out *“The incentive to innovate drives productivity growth and the advancements that improve the quality of life. The threat of IP theft diminishes that incentive.”* As a nation, we should and must embrace and protect our innovations. As a company, we too must protect the value of our innovations. Fortunately, we believe that none of the policy changes that are being seriously debated in Washington will impair our ability to do so given our fair, reasonable and transparent approach to our business.

Several developments during the past twelve months serve to illustrate our unique approach to creating value. For example, one of the reasons we identified ContentGuard as a unique acquisition opportunity is our belief that the company’s foundational digital rights management (“DRM”) technologies would become increasingly relevant to control, track and monetize both user generated and professionally produced digital content. Years before Facebook, YouTube, or Twitter existed; years before the first iPhone, iPad or Kindle; years before a person could download a song, video or book from Amazon or Apple, the inventors at ContentGuard envisioned a future where people would rely on the Internet to supply the broadest array of content the world had ever seen. ContentGuard’s inventors recognized that the world needed a secure, reliable way to protect content, prevent piracy and enable musicians, authors, photographers, publishers, and producers to share, track, control and potentially monetize their content. ContentGuard’s DRM innovations meet these needs.

Following our acquisition of ContentGuard, we began a project to develop a mobile app that would allow individuals to limit how content is viewed – who can view it, how long it can be viewed and where it can be viewed. We saw a need to

enable people to protect photos, documents, recordings and other types of digital content, whether e-mailed, texted or tweeted, from being viewed by anyone other than the intended recipient. The initial version of the app became available in December, and we intend to release more robust versions in the second quarter of this year. Look for the ContentGuard app in the Apple app store or Google play store for protection of e-mail attachments and look for the Yovo app in both app stores for our direct messaging and Twitter platform.

We believe that ContentGuard’s expertise in safeguarding digital content and growing demand for online privacy tools present us a unique opportunity to commercialize our innovations with mobile consumers in new ways, while at the same time continuing our licensing of ContentGuard DRM technologies to other companies. Meanwhile, ContentGuard’s rich legacy of innovation continues, with 33 new patents issued in the past twelve months, and 14 new patents applied for during the same period.

Another example of our unique approach is our partnership with Nokia for the development of memory and storage technologies for mobile devices and other consumer electronics. Since the creation of our subsidiary in Finland a little more than a year ago, we have filed 14 new patent applications and 20 new patents have been issued. Additionally, we completed our first licensing transaction for these technologies in the first quarter of 2014, generating significant revenues and establishing a reasonable benchmark rate without any need to threaten, much less initiate, litigation.

Unfortunately, we are not always successful in our efforts to license our intellectual property on terms that are fair to both parties. While ContentGuard had successfully licensed its technologies for more than a decade without threatening litigation, late last year the company concluded that, despite years of negotiations with some parties, ContentGuard was left with no choice but to litigate. As a result, ContentGuard filed patent infringement proceedings in December against Amazon, Apple, Blackberry, Huawei, HTC, Motorola Mobility and Samsung. A separate suit was filed against Google in January.

To be clear, we loathe litigation. It is not our preferred path, however, we must enforce our rights from time to time, both to protect those that have paid fair value to license our technologies and to protect the value of our investments. We understand that patent litigation is both expensive and time consuming, and so we undertake it with substantial care and consideration. We believe we have structured our litigation resources in a manner that minimizes both the financial impacts and the potential distraction to management. Enforcing patent rights is a substantial and risky undertaking nonetheless – one that was summarized well by one of our country’s great inventors, Samuel F. Morse, in a letter to his brother in 1848:

“I have been so constantly under the necessity of watching the movements of the most unprincipled set of pirates I have ever known, that all my time has been occupied in defense, in putting evidence into something like legal shape that I am the inventor of the Electro-Magnetic Telegraph.”

We will continue to build on the positive momentum we have created over the past several years. We are relentlessly focused on creating shareholder value through our licensing programs, from our innovations, and from wise investment of our resources. Additionally, we continue to evaluate new acquisition and investment opportunities to leverage our team and assets. While we still have much work to do to realize our growth objectives, on behalf of the Board of Directors and our management team, I thank you for your continued support.

Benjamin Wolff
President and Chief Executive Officer